

ARIZONA STATE RETIREMENT SYSTEM

Financial Horizons

WINTER 2001

2000 Year in Review

Letter from Dr. Chuck Essigs, Chairman
Arizona State Retirement System (ASRS) Board

Dear ASRS Members,

The year 2000 proved to be an eventful one for the Arizona State Retirement System (ASRS). In this issue of *Financial Horizons*, I am very pleased to present a summary of information from the Annual Financial Report for period ending June 30, 2000. The Board and staff of the ASRS strive for excellence in customer service and continue to produce a number of measurable successes, as you will read below.

Investment Performance

Perhaps one of the most dramatic measures of success comes from the fund's investment performance. Guided by the ASRS Board's long-term strategy, the ASRS continues to be recognized as one of the top-performing public pension plans in the nation. The ASRS posted an investment return of -2.0 percent for the year ending December 31, 2000, according to Mercer Investment Consulting, Inc., consultant to the ASRS. The annualized return for the last three years was 12.0 percent per year. The five-year annualized return was 13.8 percent per year, and the ten-year average return was 13.9 percent per year.

Member Services Performance

The staff of our Member Services Division (MSD) had a very busy year. They received 174,173 phone calls, calculated 10,132 Benefit Estimates, mailed out 6,756 Service Purchase cost letters, counseled 13,974 walk-ins, scheduled 568 one-on-one appointments and helped 574 ASRS members buy back out-of-state years of service credit. MSD staff also held educational Seminars, Group Meetings and Workshops across the state with a combined total of 9,292 people in attendance.

ASRS Achievements

Among the many achievements in the 1999-00 fiscal year, the ASRS Board and staff implemented provisions enacted by 2000 legislative action and accomplished the following:

Chapter 66, House Bill (HB) 2238 (ASRS; benefit increases) removed the requirement that a member be 55 years of age to qualify for a permanent benefit increase

Continued on Page 2

Inside This Issue:

Preparing Your 2000 Income Taxes	2
Growing by the Numbers	3
Health Insurance Update	5
Increase in the Social Security Wage Base for Year 2001	6
Statement of Plan Net Assets and Fund Balance	7

ASRS Board

Dr. Chuck Essigs, Chairman, Mesa
Educator; term expires 2003

Jim Bruner, Vice-Chairman,
Scottsdale
Public; term expires 2002

Dr. Merlin K. DuVal, Phoenix
Retired; term expires 2002

Bonnie Gonzalez, Flagstaff
State employee; term expires 2003

Jim Jenkins, Scottsdale
Political Subdivision;
term expires 2002

Alan Maguire, Phoenix
Member at large; term expires 2003

Norm Miller, Phoenix
Public; term expires 2003

Karl L. Polen, Phoenix
Public; term expires 2003

Ray Rottas, Paradise Valley
Public; term expires 2003

Administration

LeRoy "Gil" Gilbertson, Director

Paul Matson, Chief Investment Officer

Anthony Guarino, Deputy Director,
Chief Operations Officer

Tom Aughterton
Deputy Director, External Operations

THE ASRS MISSION

The mission of the ASRS is to contribute toward its members' long-term financial security by providing retirement, disability, survivors' and health insurance benefits; and by counseling and disseminating information to its members.

Furthermore, the mission of the ASRS website is to provide timely and useful information on-line to ASRS members, the Arizona State Legislature, Governor's Office, employers, staff, vendors and the public.

Letter from the Chairman of the ASRS Board

Continued from Page 1

(PBI). It also provided that in order to receive the PBI a member must have been receiving benefits by July 31 of the previous year rather than the previous June 30. Finally, it allowed beneficiaries to receive the PBI after the death of the member if either had been receiving benefits before July 31 of the previous year. This bill became effective July 18, 2000, but did not affect members until 2001.

Chapter 132, Senate Bill (SB) 1463 (retired teachers; return to work) allows a retired teacher who has attained normal retirement age and who terminated employment for at least 12 months to return to work without suspension of his or her retirement benefit. The retired member shall not make contributions to the ASRS during the period of re-employment, and the member is not eligible for the LTD program or to accrue additional retirement benefits.

In addition, External Operations staff continues to respond regularly to issues and constituent inquiries from Senate and House legislative staff, the Joint Legislative Budget Committee, the Governor's Budget Office, staff from Legislative Council and members at the Capitol.

I invite you to stop by and see us at one of our Board meetings, or contact the ASRS and let us know how we are doing. I am proud of our accomplishments in 2000, and it is an honor to represent you as Chairman of the ASRS Board.

Dr. Chuck Essigs

Chairman of the ASRS Board

FOR RETIRED MEMBERS

Preparing Your 2000 Income Taxes

The ASRS would like to provide a few tips to assist in understanding your 1099R tax form.

Box 1 reflects your GROSS DISTRIBUTION, which is the total of all pension benefits during the tax year. The amount in Box 2a is your TAXABLE AMOUNT. This is the amount of your pension that is "taxable," based on information available at the ASRS. Amounts in this box include income received from a cost-of-living adjustment (COLA), but does **NOT** include amounts received from health insurance premium benefits or amounts excluded as already taxed.

The difference between Box 1 and 2a is the amount excluded from taxes and is reflected in Box 5, titled EMPLOYEE CONTRIBUTIONS or INSURANCE PREMIUMS.

Because other information may be included in Box 5, do not use this figure to determine the net deductions for your health insurance premiums. To find your net deductions, refer to your December 2000 payment summary and subtract the year-to-date amount from your insurance premiums (HI PREM) by your year-to-date premium benefit (PREM BEN), if applicable.

The above is intended only to clarify and is not provided as tax advice.

GROWING BY THE NUMBERS

Below is a snapshot of the Arizona State Retirement System's membership as of June 30, 2000.

TOTAL MEMBERSHIP:	327,534
--------------------------	----------------

NON-RETIRED MEMBERS

Total Number of Active Members	183,924
Number of State Employees	43,524
Number of Teachers	57,475
Number of Political Subdivision Employees	82,925
Average Age	43.3
Average Years of Service	8.2
Average Annual Salary	\$30,163
Total Number of Inactive Members	81,977
Total Number of Non-Retired Members	246,280**

RETIRED AND LONG-TERM DISABILITY MEMBERS-PLAN

Total Number of Retired Plan Members	58,038
Average Age	70.6**
Average Years of Service	18.2**
Average Monthly Benefit	\$1,024**
Total Number of Long-Term Disability Members	3,595

RETIRED MEMBERS-SYSTEM*

Total Number of Retired System Members	1,051
Average Age	75.8**
Average Years of Service	12.0**
Average Monthly Benefit	\$942**

*Members who participated in the defined contribution program. This program no longer is open to new members.

**Some numbers were not yet available from the actuarial valuation for Fiscal Year 2000, in that instance numbers from the actuarial valuation for Fiscal Year 1999 were used.

Financial Annual Report Summary

Statement of Revenues and Expenses (as of June 30, 2000)

Revenues

Member Contributions	\$ 152,957,838
Employer Contributions	\$ 152,957,449
Member Purchase of Service	\$ 35,347,830
Net Investment Income	\$2,035,312,005
TOTAL	\$2,376,575,122

Expenses

Retirement Benefits	\$ 695,425,997
Health Insurance Benefits	\$ 37,651,498
Long-Term Disability Benefits	\$ 41,220,030
Survivor Benefits	\$ 13,255,861
Member Refunds	\$ 70,754,497
Administrative Expenses	\$ 13,061,933
Transfers to other systems	\$ 4,881,748
Other	\$ 1,800,014
TOTAL	\$ 878,051,578
Net Increase	\$1,498,523,544

The net increase is the excess of revenue over expenses, which is income to the Retirement Fund that is invested for future benefits.

ASRS TOTAL ASSETS

With security as the principal consideration in our investments, the ASRS' assets continue to grow. As of June 30, 2000, the retirement system was worth \$24 billion.

FY 00-\$24 Billion

FY 99-\$22 Billion

FY 98-\$20 Billion

FY 97-\$17 Billion

Schedule of Investments

The following shows the fair value of the ASRS ending June 30, 2000.

	Market Value
Corporate Stocks	\$16,982,231,908
Fixed Income Securities:	
-Corporate Bonds	\$ 2,516,015,831
-Government Bonds	\$ 3,823,679,166
-Real Estate Mortgages	\$ 233,092,170
-Temporary Investments	\$ 532,740,815
-Net Receivables on Transactions:	\$ (263,492,443)
TOTAL PORTFOLIO	\$23,824,291,717

Brief Overview of Assets & Liabilities

ASSETS

Cash in Bank	\$ 88,672,950
Receivables	\$ 242,989,371
Investments	\$25,387,268,836
TOTAL ASSETS	\$25,718,931,157

LIABILITIES & RESERVES

Payables	\$1,793,325,949
Reserves for Benefits	\$23,925,605,208
TOTAL	\$25,718,931,157

Health Insurance Update

PacifiCare was selected by the Arizona State Retirement System (ASRS) in October 2000 to serve more than 31,000 retired and disabled ASRS members, with coverage initiated on January 1, 2001.

The process of transitioning 31,000 members from four plan choices to one was not a simple task. While PacifiCare did initially experience some lengthy wait times on their customer service line, the current wait time is now less than 30 seconds.

Membership Card Distribution

All enrolled PacifiCare members have been sent new cards; however, some may not have been received yet. Lack of a membership card should not prevent a member from seeing a doctor or receiving a prescription. Communication with doctors and pharmacies about this issue have taken place and they are working with PacifiCare and the ASRS members to provide services as needed. Physicians have been provided with a special member verification line they can call to verify membership. Additionally, all enrolled ASRS members are included on the pharmacy eligibility system. Should there be a problem at the pharmacy, ASRS members can either pay the full price and request reimbursement or contact PacifiCare Customer Service for assistance at 1-800-347-8600. For members enrolled in the Senior Supplement plan, you can call 1-800-851-3802, Monday through Friday from 8 am to 5 pm Pacific Standard Time (PST).

Completion of Enrollment

A number of ASRS members (approximately 1,500) did not respond to either accept or decline their health insurance benefits for 2001. To ensure these members have continuous medical coverage, PacifiCare, with the approval of the ASRS, has automatically enrolled these members into the PacifiCare plan product that matches their original plan choice. PacifiCare is coordinating an aggressive calling campaign to contact these members and verify if they wish to maintain health insurance coverage. PacifiCare will enroll the members that are contacted into the plan of their choice and any changes will be made retroactively.

Commitment to Quality and Improvement

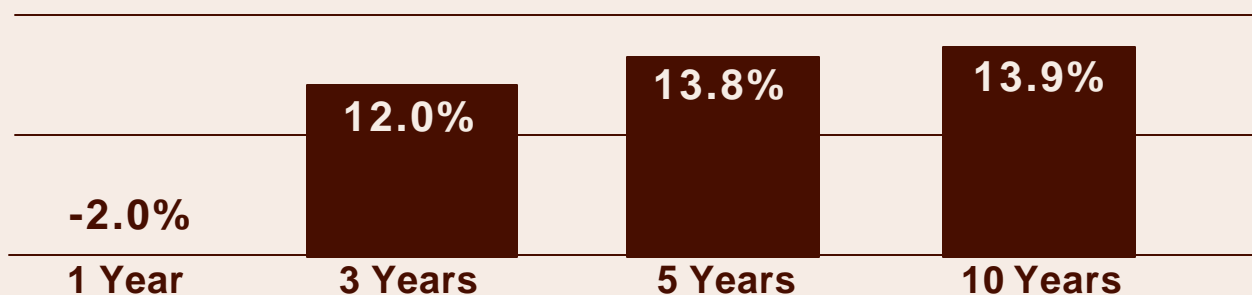
The ASRS would like to acknowledge the difficulties that have taken place during the enrollment period, and as part of PacifiCare's commitment to quality health care, please be assured that ASRS members will receive helpful and courteous service to questions they may have with regard to PacifiCare coverage. It is of the highest priority of the ASRS staff to win back the confidence and trust that our members have continued to give to us over the years.

Contact Information

All member questions should first be directed to PacifiCare Customer Service for resolution. PacifiCare may be reached at 1-800-347-8600, Monday through Friday, from 7 am to 6 pm MST or for Senior Supplement issues call 1-800-851-3802, Monday through Friday, from 8 am to 5 pm PST.

ASRS Investment Rates of Return

The ASRS continues to benefit from impressive rates of return. This graph reflects the rates of return for the period ending December 31, 2000.



Increase in the Social Security Wage Base for Year 2001



Effective January 1, 2001, the Social Security wage base increased to \$80,400. Other important changes for 2001 include:

- the amount of earnings needed to earn a Social Security credit is \$830
- the maximum amount of earnings that a beneficiary may earn in 2001 without any reduction in benefits is:

\$10,680 for individuals under age 65, and

\$25,000 for individuals who attain age 65 in 2001. (Applies only to months before attaining age 65. There is *no* reduction upon attainment of age 65)

The tax rate is 7.65 percent for employers and employees each. The 7.65 percent tax rate is the combined rate for Social Security and Medicare. The Social Security portion (OASDI) is 6.20 percent on earnings up to \$80,400. The Medicare (HI only) portion is 1.45 percent on all earnings. All earnings from Medicare Qualified Government Employment (MQGE) are subject to the 1.45 percent Medicare HI tax.

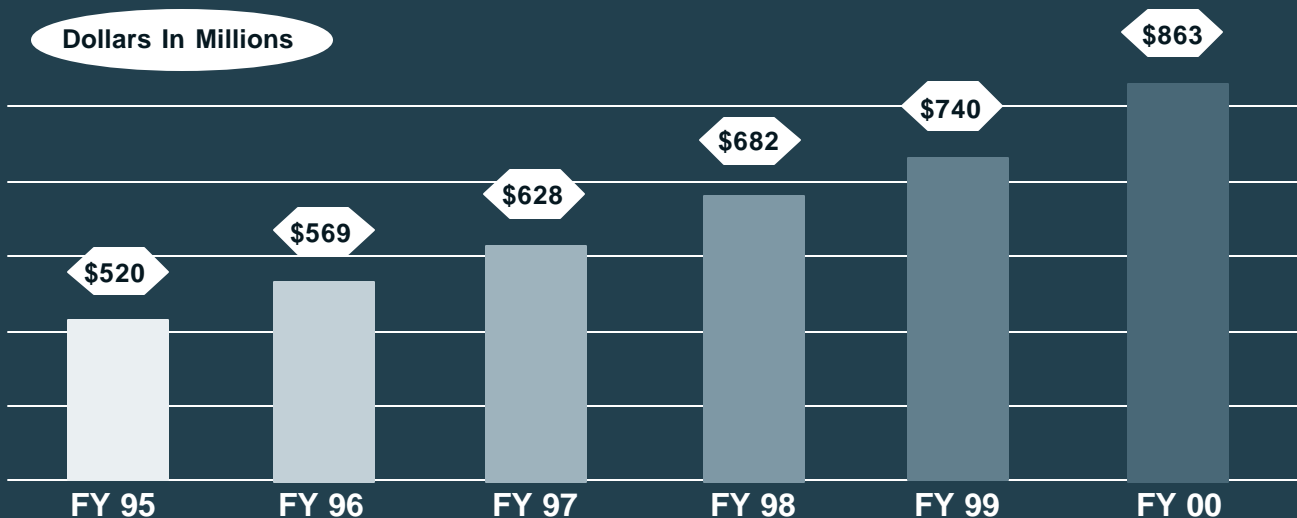
Information about Medicare changes for 2001 can be found at <http://www.medicare.gov>.

Source:

**Social Security Administration
Office of Program Benefits
Division of Coverage and Support
SSA Pub. No. 16-055**

FOR YOUR BENEFIT...

The mission of the ASRS is to contribute toward its members' long-term financial security. In fiscal year 2000, the ASRS paid \$863 million in benefits.



Statement of Plan Net Assets and Fund Balance

-Actuarial Valuation for Fiscal Year 2000**

Actuarial Accrued Liabilities

Liabilities due to members' benefits

Retirement Benefits	\$ 6,734,246,600
Health Insurance Premium Supplement	\$ 409,278,200
Disability Benefits (Deferred Retirement)	\$ 134,140,800
Pre-Retirement Death Benefits	\$ 202,624,519
Withdrawal Benefits	\$ 402,682,639
TOTAL ACTIVE MEMBERS	\$ 7,882,972,758

Inactive Members **\$ 563,122,532**

Retired Members and Beneficiaries	\$ 6,295,486,360
Disabled Members (Deferred Retirement)	\$ 149,290,500
Benefit Increases for Other-than-plan-participants	\$ 9,312,935
Total Present Value of Benefits	\$ 14,900,185,085

Reserve for "Excess Investment Earnings" Benefit Increase	\$ 1,221,714,444
Total Actuarial Accrued Liability	\$ 16,121,899,529

Actuarial Value of Assets **\$ 18,760,959,854**

Unfunded Actuarial Accrued Liability	\$ (2,639,060,325)
Amortization of Unfunded Actuarial Accrued Liability	\$ (301,287,555)
Normal Cost for the Year	\$ 601,154,219
Total Contribution for the Year	\$ 299,866,664
Total Covered Payroll (projected to 1999/2000 plan year)	\$ 5,487,933,600

Required contribution as a percentage of pay for Fiscal Year 2000-2001:

Employee Portion	2.00%
Employer Portion	<u>2.00%</u>
Total	4.00%

*Does not include the additional 0.49% contribution to fund the long-term disability program. Parentheses denote surplus amounts and reduce future liability.

Question:

How is my money invested at the ASRS?

ANSWER:

The graph to the right shows how the ASRS invested your money as of December 31, 2000. The way the funds are allocated plays a significant role in our financial success.

Foreign Stocks 16%

Domestic Bonds 31%

Domestic Stocks 53%

Financial Horizons

P.O.Box 33910
Phoenix, AZ 85067-3910

PRSR STD
U.S. Postage
PAID
Arizona State
Retirement System

COMMENTS?

The Arizona State Retirement System continues to appreciate your comments and suggestions. We encourage you to write the ASRS Director, LeRoy Gilbertson with your concerns. Please include your name, telephone number and Social Security number on all correspondence. Thank you for your input.

Send letters to:
LeRoy Gilbertson, Director
Arizona State Retirement System
P.O. Box 33910
Phoenix, AZ 85067-3910

ASRS *Financial Horizons* is published quarterly for retired and non-retired members of the Arizona State Retirement System. We welcome letters from our readers and encourage you to address your comments to:

Stephanie Marries, Editor
Financial Horizons
P.O. Box 33910
Phoenix, AZ 85067-3910

The ASRS complies with the *Americans with Disabilities Act of 1990*. This newsletter is available in an alternate format upon request. Contact Maria Antongiorgi, ADA Coordinator, at (602) 240-2139. Information in the newsletter about retirement laws or policies is only a guide. If a conflict arises between information contained in the newsletter and the law, the law takes precedence.

CONTACT US!

ON THE WEB:
www.asrs.state.az.us

PHOENIX OFFICE:
3300 North Central Avenue
Post Office Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000

TUCSON OFFICE:
7660 East Broadway Boulevard
Tucson, AZ 85710-3776
(520) 239-3100

**OUTSIDE METRO PHOENIX
AND TUCSON:**
Call Toll Free at (800) 621-3778

ASRS MEMBER SATISFACTION SURVEY RESULTS ARE IN!

For the past three years, the Arizona State Retirement System (ASRS) has commissioned WestGroup Research of Phoenix to conduct a telephone survey of its members. The purpose of the survey is to evaluate three ASRS service attributes with its members. Three specific sub-groups were targeted – recent retirees, members who have had contact with ASRS in the past 12 months, and members who have not had contact in the past 12 months. The following is how the ASRS has rated in the past three years.

Using a scale of 1 to 5 with “5” meaning they strongly agree and “1” meaning they strongly disagree, the chart below shows how the members of the ASRS evaluated its employees and services provided.

<u>Responses</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
ASRS employees provide good service	4.3	4.2	3.9
ASRS keeps its members informed of matters that affect them	4.3	4.2	4.1
ASRS is pleasant and easy to do business with	4.3	4.2	4.0